

# **Inquiry into Alcohol Toll Reduction Bill 2007 – Submission by the Australian Association of Microbrewers to the Senate Community Affairs Committee**

20 March 2008

## **1. Overview**

The Australian Association of Microbrewers welcomes the opportunity to make a submission to the Senate Community Affairs Standing Committee (the Committee) comment on the Alcohol Toll Reduction Bill 2007 (the Bill).

Firstly, the Australian Association of Microbrewers, the state representative bodies and their members promote and support the responsible consumption and enjoyment of beer.

Secondly, the Australian Association of Microbrewers, the state representative bodies and their members support the existing scheme for regulation the advertising of alcohol, the Alcohol Beverages Advertising Code<sup>1</sup> upon which the Bill draws heavily.

Thirdly, the Australian Association of Microbrewers, the state representative bodies and their members' request that the Committee and the Senate carefully consider any legislative proposal the effect of which would be to further entrench the major alcohol producers advantages and make even more difficult the ability of microbrewers to challenge that dominance.

The Australian Association of Microbrewers would be alarmed if legislation was adopted that made it harder for micro brewed beer to compete, just as the current alcohol excise tax regime at present discriminates against micro brewed beer (see Section 1.2).

### **1.1. Entrenching the big alcohol companies**

The Australian Association of Microbrewers, the state representative bodies and their members' request that the Committee carefully consider any legislative proposal that increases regulation or costs, the effect of which would be to further entrench the major alcohol producers' advantages and make even more difficult the ability of microbrewers to challenge the dominance of the incumbents.

As previously stated the micro brewing sector supports the responsible consumption and enjoyment of beer and the existing quasi-regulatory scheme of regulating the advertising and marketing of alcohol.

The major alcohol companies all have stables of well known branded product from "VB" to "XXXX" in the beer market to "Bundaberg Rum" and "Johnny Walker" in the spirit market. Severely restricting advertising will entrench these well known brands at the cost of challenger brands including micro brewed beer reducing competitive pressure and consumer choice.

Maybe freezing the market would be acceptable if the desired policy objective was achieved but numerous studies across a range of countries have shown that this is unlikely.

---

<sup>1</sup> <http://www.aana.com.au/pdfs/ABACCODE04.pdf>

“...research into the impact of advertising bans tends to indicate that they either have no effect on consumption or are associated with an increase.”<sup>2</sup>

The research indicates that rather the result will be a range of perverse outcomes including greater consumption and less innovation.

“Finally, even if a ban could be shown actually to reduce advertising overall, the risk of increasing price competition and potentially discouraging innovation has to be assessed seriously. ... And the more companies are driven to rely on price when competing in the market place, the greater consumption is likely to be.”<sup>3</sup>

To fully grasp the point of the dangers of introducing anti-competitive measures through increased regulation, it is useful to consider the extreme, i.e. what would happen if alcohol advertising was banned tomorrow?

Simply put the current market dominance of the large, often multi-national, beer wine or spirits companies would be “frozen” against legitimate challengers for all time. The current dominant brands would be the biggest winners in this scenario.

In our view, any moves which have the effect of further protecting the incumbents against challenge from small or even new players (e.g. Coca-Cola) in the market raises serious anti-competitive issues, the degree of which will be commensurate with the degree of restriction proposed.

This principle is the same whenever a market intervention is proposed by legislators and regardless of whether it is applied to advertising or other issues, e.g. the recent decision of the Parliament to effectively exempt 92% of winemakers from alcohol taxes without offering a similar exemption to brewers.

The evidence is that micro brewing can be an innovative and major competitor for the larger alcohol manufacturers. Since the advent of the micro brewing industry in the US, large brewers have been using fewer additives and are diversifying their product lines to revive regional styles, increasing the consumer choice.

The Association of Microbrewers of Australia suggest that it the responsibility of those seeking to impose additional costs and regulations to make the detailed case, a concept recognised by the policy decision that all Government legislative proposals must include a Regulatory Impact Statement.

As the Prime Minister Kevin Rudd announced only last year;

“Once we’ve got a process to eliminate unnecessary existing regulation, we need to put in place a system that will protect businesses from new, unnecessary regulation. Where regulation has potential impacts on business, those impacts will be assessed through a rigorous Regulation Impact Statement process.”<sup>4</sup>

This need to detail the cost and regulatory impact is even more crucial on this occasion as the Bill seeks by legislation to unilaterally takeover a successful quasi-regulation model developed by industry, the

---

<sup>2</sup> “Food for Thought” *Frontier Economics* Jan 2008 p.1 <http://www.frontier-economics.com/library/publications/Frontier%20bulletin-%20food%20for%20thought%20stp.pdf>

<sup>3</sup> *Frontier Economics*, p4

<sup>4</sup> <http://eherald.alp.org.au/articles/0407/natp18-01.php> “Business regulation: 7 new steps” Kevin Rudd

Alcohol Beverages Advertising Code<sup>5</sup> which is more prescriptive as the following comparison illustrates.

<i>Alcohol Beverages Advertising Code</i>	<i>Alcohol Toll Reduction Bill 2007</i>
<p><b>Advertisements for alcohol beverages must –</b></p> <p>a) present a mature, balanced and responsible approach to the consumption of alcohol beverages and, accordingly –</p> <p style="padding-left: 40px;">i) must not encourage excessive consumption or abuse of alcohol;            ii) must not encourage under-age drinking;            iii) must not promote offensive behaviour, or the excessive consumption, misuse or abuse of alcohol beverages;            iv) must only depict the responsible and moderate consumption of alcohol beverages;</p> <p>b) not have a strong or evident appeal to children or adolescents and, accordingly –</p> <p style="padding-left: 40px;">i) adults appearing in advertisements must be over 25 years of age and be clearly depicted as adults;            ii) children and adolescents may only appear in advertisements in natural situations (eg family barbecue, licensed family restaurant) and where there is no implication that the depicted children and adolescents will consume or serve alcohol beverages; and            iii) adults under the age of 25 years may only appear as part of a natural crowd or background scene;</p> <p>c) not suggest that the consumption or presence of alcohol beverages may create or contribute to a significant change in mood or environment and, accordingly –</p> <p style="padding-left: 40px;">i) must not depict the consumption or presence of alcohol beverages as a cause of or contributing to the achievement of personal, business, social, sporting, sexual or other success;            ii) if alcohol beverages are depicted as part of a celebration, must not imply or suggest that the beverage was a cause of or contributed to success or achievement; and            iii) must not suggest that the consumption of alcohol beverages offers any therapeutic benefit or is a necessary aid to relaxation;</p>	<p>(2) Standards under subsection (1) for commercial television broadcasting licensees are to relate to:</p> <p style="padding-left: 40px;">(a) the definition of direct advertisements for alcohol products;</p> <p style="padding-left: 40px;">(b) limiting the timing of the broadcasting of advertisements for alcohol products to the period 9pm to 5am each day of the week;</p> <p style="padding-left: 40px;">(c) the content of any advertisement for an alcohol product, and must specifically provide that such an advertisement:</p> <p style="padding-left: 80px;">(i) not have strong or evident appeal to children;            (ii) not suggest that alcohol contributes to personal, business, social, sporting, sexual or other success in life.</p>

The ALP has recognised that one of the challenges for manufacturing, of which microbreweries are

<sup>5</sup> <http://www.aana.com.au/pdfs/ABACCODE04.pdf>

only one example, is that both regulation and taxation can be an un-competitive burden on innovation and growth.

“While regulation and tax are unavoidable features of modern markets, Labor is committed to ensuring they do not unduly burden manufacturers. Efficient regulatory and tax systems will ensure Australian manufacturers can expand and compete effectively on the international stage.”<sup>6</sup>

Therefore before any additional costs are imposed in terms of labeling for example, it is incumbent on the critics of the current system to suggest that the proposed market failure is sufficiently great to justify further cost burdens.

And finally, it should be noted that micro brewed beer is a mature adult taste that does not appeal to under age consumers.

## **1.2. Wet Equity Proposal “A Fair Go for All”**

The Australian Association of Microbrewers has been campaigning for a number of years to achieve tax equity with small regional winemakers by the Federal Government agreeing to amend the Excise Regulation to equally support wine produced by smaller winemakers and beer brewed by microbrewers.

The Association believes that reforming beer excise to provide a “fair go for all” as per the “WET Equity” proposal will deliver industry investment and growth and the development of a diverse, healthy brewing industry with increased employment generating significant additional tax revenue.

The Australian Association of Microbrewers’ “WET equity” proposal is for the excise tax refund on beer to be increased from the current maximum of \$10,000<sup>7</sup> to the same maximum amount as the Wine industry producer rebate - \$500,000 per annum.

Government policy recognises that it needs to “provide hands-on support to small and medium sized companies boost local economies and create new jobs in areas that are experiencing adjustment pressures”<sup>8</sup>. The contribution of a favourable tax regime for small regional winemakers and the many local benefits created by a viable and growing industry has long been recognised. It is now past time for the same recognition to be given to the growing micro brewing sector.

Microbrewers are a growing part of the domestic market and represent a different industry model from the big brewers. Half are based in regional Australia, there are breweries in all States and most are small businesses employing a number of local residents.

## **2. Overview of Australian Microbrewing Sector**

Australian microbreweries compete directly with the major brewers who dominate the domestic beer industry and with whom microbreweries have little in common whether in size or philosophy.

---

<sup>6</sup> Senator Kim Carr Fresh ideas for Australian manufacturing: Background paper for the National Manufacturing Roundtable <http://www.alp.org.au/media/0907/msindloo100.php> Visited 10 January 2008

<sup>7</sup> The beer excise rebate cap of \$10,000 has not been update since 1999, unlike the Wine Equalisation Tax which has been update twice wince then.

<sup>8</sup> Senator Kim Carr “Innovation Future for Australian Industry” Media Statement 21 Nov 07 <http://www.alp.org.au/media/1107/msind211.php> Visited 10 January 2008

Microbreweries in comparison with the major brewers represent

- Innovation and development;
- Regional employment and employment growth; and
- Independent family businesses.

The majority of microbreweries are diversified small businesses, often offering hotel/pub/bar, restaurant/café, or tourist attraction operations to complement beer manufacturing. Many microbreweries (54%) are located in rural and regional Australia. Most are family businesses independent of the majors<sup>9</sup>.

Microbreweries are small brewing businesses producing between 10,000 to 3 million litres of beer per annum for sale in bottles and kegs. Microbreweries present one of the few opportunities for business development and employment growth within the beer and malt industry. New microbreweries have been establishing at the rate of 30% per annum in recent years. Total employment in the brewing industry has been decreasing at 0.3% per annum (and continuing automation and globalisation are unlikely to change this trend). Over the same period, employment in microbreweries has increased at more than 10% per annum<sup>10</sup>.

Australia's microbrewery sector is estimated to currently make a \$295.5 million in total contribution (direct and indirect) to the Australian economy. By 2010 this is projected to increase to \$502 million under the current excise environment. The 84 known microbreweries now provide 320 (full time equivalent) jobs. By 2010 this is expected to increase to 575 jobs under the current excise environment.<sup>11</sup>

The Australian Association of Microbrewers is the national body representing the micro brewing sector in Australia. In addition there are representative state bodies:

- Western Australia Brewers Association;
- NSW Brewers Guild;
- South Australian Microbrewers Association; and
- Victorian Association of Microbreweries.

The Australian Association of Microbrewers and the state representative bodies all promote and support the responsible consumption and enjoyment of beer.

### **3. Conclusion**

The Australian Association of Microbrewers asks that the Senate Community Affairs Committee carefully consider the broader implications of further regulating alcohol, particularly competition policy implications, not just the obvious narrower issues.

For further information please contact Mr. Cameron Hines ph 03 9428-1180 email [cam@goatbeer.com.au](mailto:cam@goatbeer.com.au)

---

<sup>9</sup> Street Ryan & Associates Analysis of Australian Microbreweries: Facts and Economic Impact Sept 2006 p.3

<sup>10</sup> Street Ryan p.3

<sup>11</sup> Street Ryan p.3